

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Peoples Bancorp of North Carolina, inc.

Point of Contact:	Joe Lampron	RSSD: (For Bank Holding Companies)	2818245
UST Sequence Number:	329	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	0	FDIC Certificate Number: (For Depository Institutions)	5956
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	December 23, 2008	City:	Newton
Date Repaid ¹ :	N/A	State:	North Carolina

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

While the level of loans outstanding has decreased since we received the CPP funding in December 2008, the Bank would have reduced lending at a much faster pace as we would have reduced the size of the Bank to protect our capital levels.

☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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☒ **Increase securities purchased (ABS, MBS, etc.).**

This has continued in 2010 as lending has declined due primarily to a lack of qualified borrowers.

☐ **Make other investments.**

☒ **Increase reserves for non-performing assets.**

Peoples Bank continues to experience an increased level of loan loss reserves, due in part to the elevated level of non-performing loans. This has necessitated an increase in the level of the reserve for loan losses.

☐ **Reduce borrowings.**

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☒ **Increase charge-offs.**

Charge-offs reached an all-time high in 2010, again leading to the need for a higher level of reserve for loan losses, as a component of the reserve is based upon historical losses. It has also required a much higher level of provision for loan losses to increase the reserve to the required level.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The addition of the CPP capital has allowed our Bank to generate earnings and to keep our capital at levels that allowed us to operate in a conservative manner but not such that we have been required to drastically reduce our non-interest expense. The result of this is that we have not been forced to do across-the-board layoffs, so we have been able to protect jobs within our communities. We have also been able to continue our support of our local communities, including local schools and non-profits. We believe that this has allowed us to continue to have a positive influence on our local economies.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

As a result of having this additional capital, Peoples Bank was able to be more accommodating with many borrowers, allowing them additional time to sell homes or building lots or being able to modify loan terms to allow borrowers to remain in their current homes.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.